

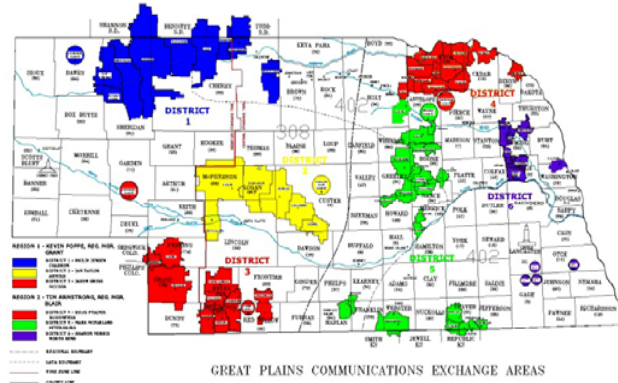
Impacts of Uncertain Universal Service Support on Extremely Rural Areas

On Behalf of the Nebraska Rural Independent Companies

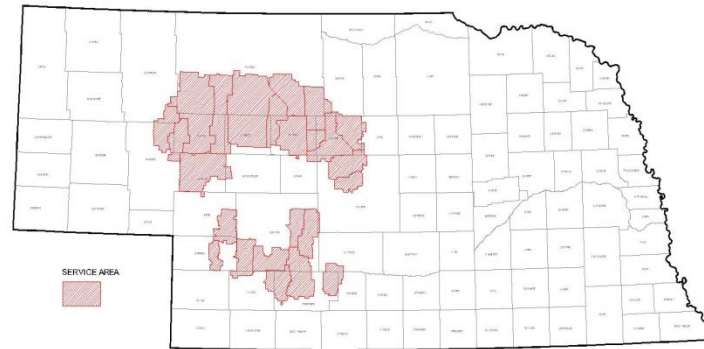
Ken Pfister, Great Plains Communications

Wendy Thompson Fast, Consolidated Companies

We Serve Extremely Rural Areas



GREAT PLAINS COMMUNICATIONS EXCHANGE AREAS



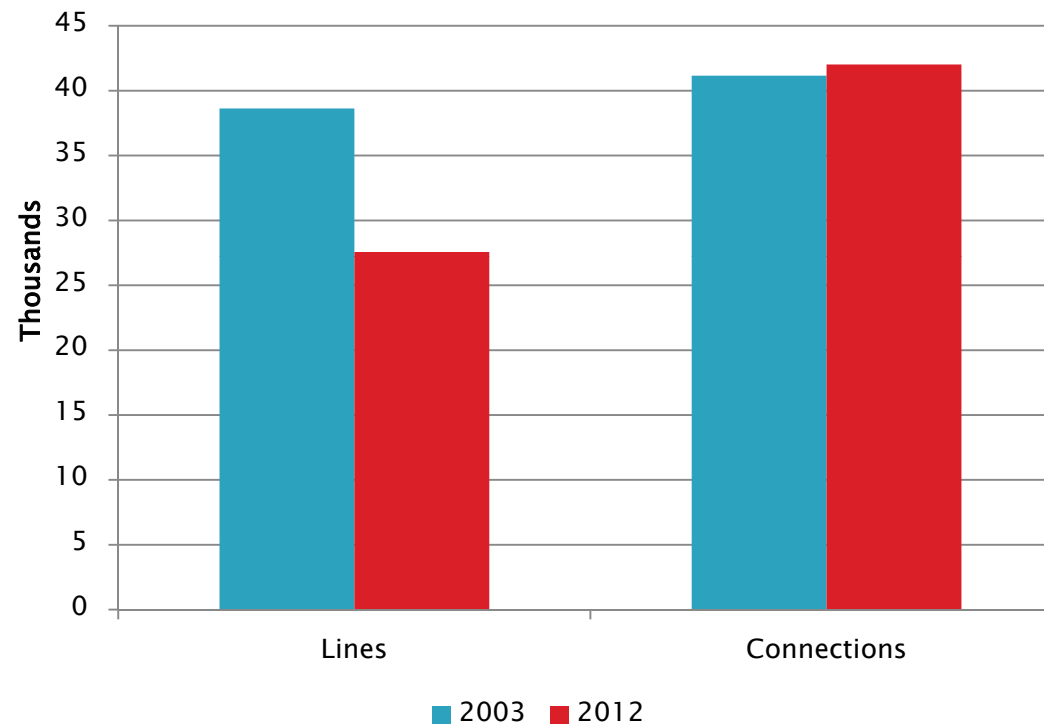
SERVICE AREA



Statistic	Great Plains	Consolidated
Service Area Size	14,000 square miles	9,000 square miles
Customer Density	1.6 customers per square mile	0.75 customers per square mile
Transport Distance	1,700 miles	550 miles
4/1 M Availability	60%	81%
Broadband at Any Speed	70% – 75%	96%

Per capita income is 79% of the National average

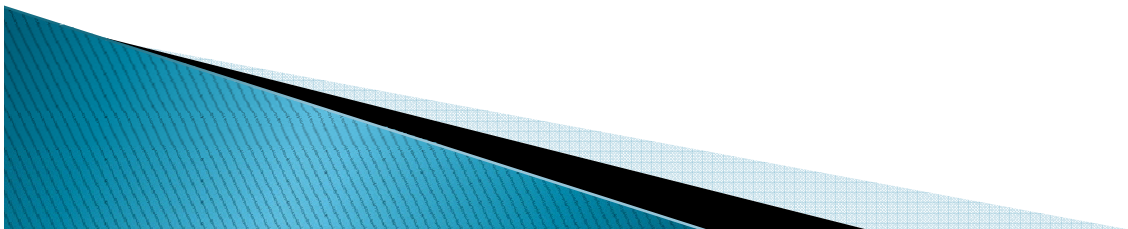
Despite an Average Population Decline of 7% for the Period, Our Customer Connections Have Increased Slightly



Population data prorated by the land area served by GPC and Consolidated.
Connections = access lines + broadband lines.

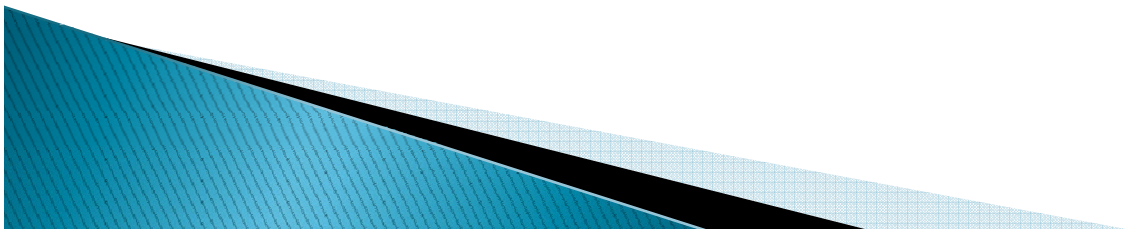
We Have Been Good Stewards of USF

- ▶ Deployed broadband gradually, as economics and cash flow allowed
- ▶ Minimal debt
- ▶ Provide good customer service
- ▶ Local rates well above the rate floor
- ▶ Below the HCL OpEx and CapEx constraints
- ▶ Earnings and OpEx limited by state USF rules



We Have Long Understood Change and Accountability Are Necessary

- ▶ Provided solutions rather than just saying no
 - Worked with staff to improve the Quantile Regression Analysis (QRA)
- ▶ Encouraged changes that increased accountability
 - Reasonable constraints on spending
 - Local rate benchmarks
 - Phase-out of Safety Net
 - Changes to Local Switching Support
- ▶ Supported states having a financial stake
- ▶ Supported targeting USF to high-cost areas



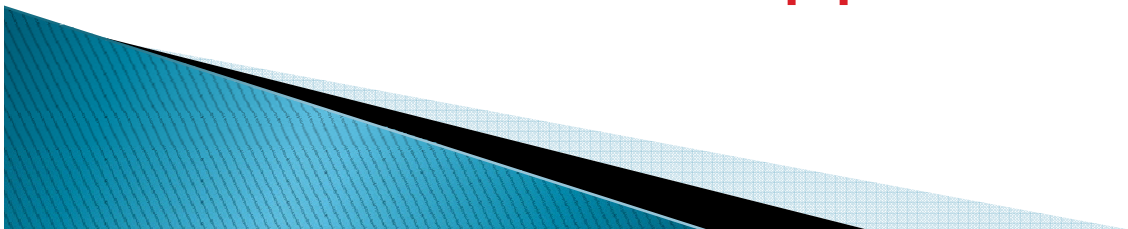
Unnecessary Uncertainty Caused by FCC Policies Have Curtailed Investment

▶ What happened...

- ICC reform forced rate reductions
- QRA as *implemented* resulted in unreliable limits. Cost relationships were obscured and coefficients have the wrong sign.
 - Boundary errors were not corrected before implementation
 - Total Cost, rather than Cost per Loop, selected as the dependent variable
 - Inclusion of insignificant variables and variables that are not directly related to cost causation

▶ What may happen...

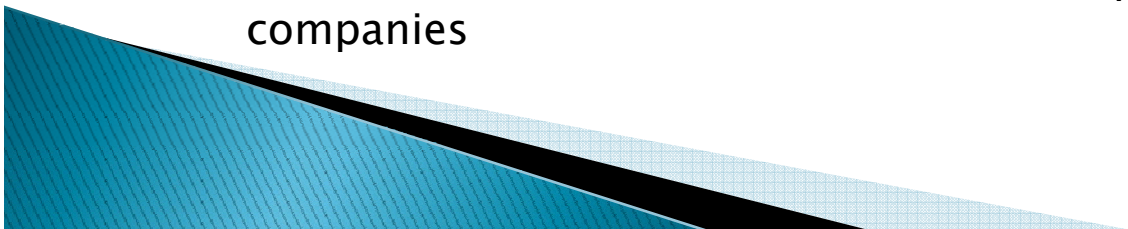
▶ What didn't happen...



What May Happen....

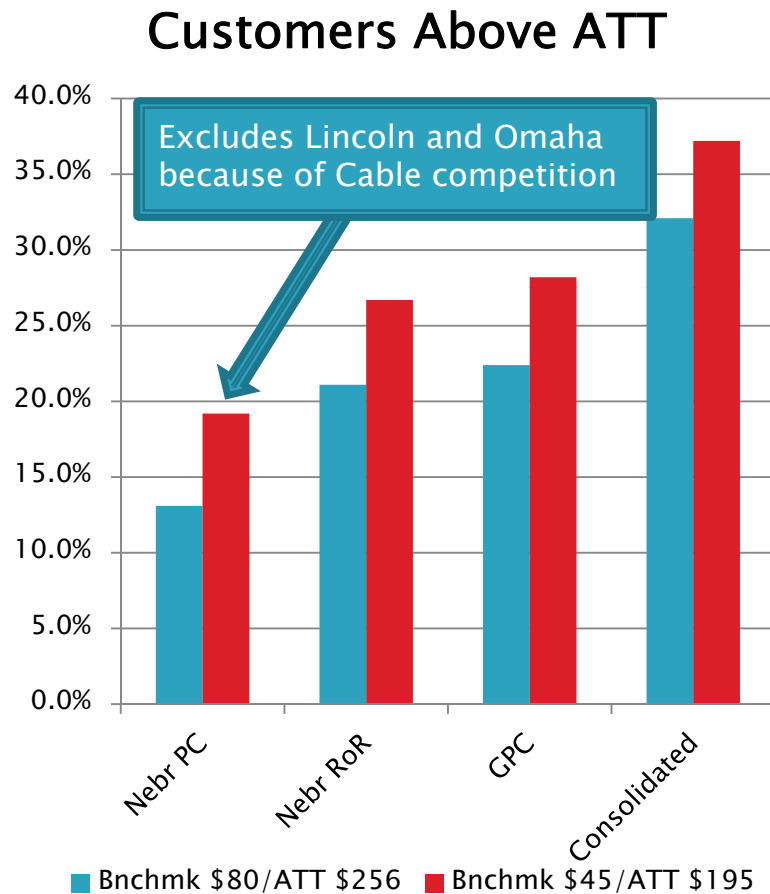
Forced Conversion to Model Support

- ▶ Data Underlying Models Must Be Correct To Ensure Reasonable Results
 - ▶ Rate-of-return boundaries are still a problem in the Connect America Cost Model (CAM)
 - ▶ The boundary data was not corrected prior to implementation of the QRA and repercussions exist
 - ▶ Data must be more accurate for rate-of-return than for price cap companies because the law of averages will not correct for the errors
- ▶ Rate-of-return areas are generally more rural than price cap areas; therefore, a different way of identifying and targeting support to ultra-high cost customers is necessary
 - ▶ No currently served customers should be moved to an alternative technology
 - ▶ If budget is going to be the driver, then the Alternative Technology Threshold (ATT) needs to be different for price cap and rate-of-return companies



What May Happen....

Unrealistic Alternative Technology Thresholds



- Sound policy, not arbitrary budget constraints, should dictate Remote Area Fund ATTs
- ATTs are inconsistent with the NBP, which discussed only 250,000 households (0.2%) being relegated to satellite
- As the budget discussion evolves, more funding goes to low-cost areas, which relieves price cap carriers of serving even marginally high-cost customers

Remote Area Fund Thresholds Have Real-Life Implications for Customers

- ▶ Without funding, customers would lose voice and broadband service
 - ▶ Voice:
 - ▶ Satellite cannot provide voice due to latency
 - ▶ Wireless coverage is not uniformly available
 - ▶ Broadband:
 - ▶ Many of these customers are served already
 - ▶ Satellite broadband is inferior in quality and currently unavailable to new customers in much of the nation
- ▶ RAF could strand large amounts of rate-of-return investment
- ▶ The law requires comparable service in high-cost areas
- ▶ Commissioner involvement is needed to protect consumers

What May Happen...

Phase-out of CAF Switched ICC Support

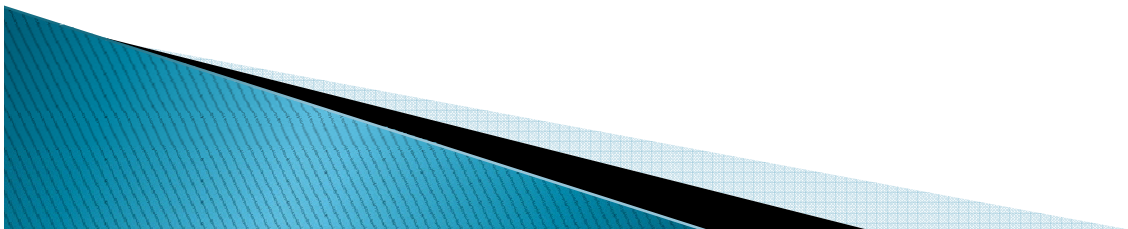
- ▶ Intercarrier compensation (ICC) helped support network investment and now is either being eliminated by market forces, phased down, or intentionally avoided by IXC's blocking traffic
 - ICC was a larger portion of rate-of-return carriers' revenues (greater than 25%) than it was for price cap companies (less than 10%); therefore, elimination of CAF ICC would therefore be a more substantial revenue change
 - After five years, CAF ICC will be at most 77% of the original amount
 - FNPRM discussed elimination of CAF ICC
 - Originating ICC will be eliminated by market forces or IXC conduct



What Didn't Happen...

Changes to High Cost Loop Support

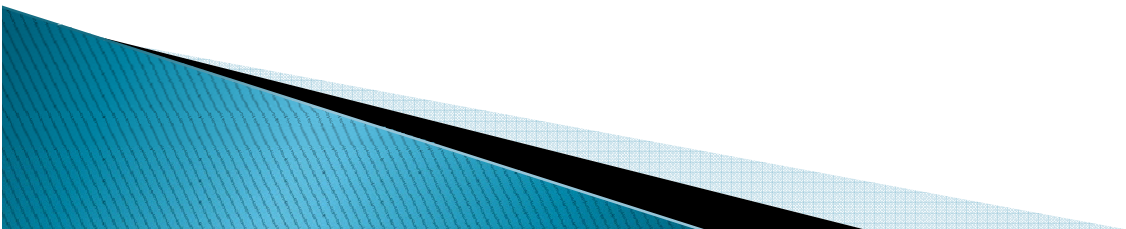
- ▶ High Cost Loop Support (HCLS) is not available for broadband only lines today, as demand shifts to broadband HCLS is diminished
 - There should be support for naked DSL
- ▶ In a broadband world, the cap on HCLS should be set based on connections, not access lines
- ▶ Some have suggested that HCLS be distributed in a like manner to ICLS, which will generally shift support from
 - lower density areas to higher density areas,
 - smaller to larger companies, and
 - companies that have invested recently to those that haven't
- ▶ USF should be targeted to high-cost areas; thus a proposal to base HCLS on the distribution of ICLS is flawed



What Didn't Happen...

Contributions Reform

- ▶ Without contributions reform, eventually there will be a seriously insufficient contributions base
- ▶ The base must be broadened and inequities eliminated
 - Broadband service should be part of the funding base
 - Only rate of return carriers' broadband is assessed today
- ▶ Each jurisdiction's base should be consistent with its funding obligations
 - Roughly half the states currently fund \$1.5 Billion in high-cost support
 - Statute demands a joint federal/state responsibility
 - States must continue to have a funding base
- ▶ State Universal Service Funds continues to be critical to rural companies
 - Nearly \$24M is distributed annually to Nebraska rate-of-return companies



Conclusions

- ▶ We encourage you to visit our companies to see what we have accomplished with federal and state USF
- ▶ The recent reforms have made us more hesitant to invest in our service areas
- ▶ Future reforms, if done without accurate data or appropriate policy basis, could leave many of our customers without comparable service
- ▶ The Commission must move forward with contributions reform and should preserve a role for state funds

